

Developing a price *list* for embroidery services may not be practical, but it is possible to establish pricing *guidelines* that allow fast and simple job quoting for 90 percent of your embroidery requests.

The primary principle is designing a formula that builds in a healthy profit margin to the cost of your goods and services. A secondary principle is the inclusion of policies that protect the profits built into your structure.

Checking your prices against other embroiderers is good market research, but matching their prices may not be good business. Knowing your costs and adding a fair margin is the key to setting prices that will keep your business healthy.

What Will You Embroider On?

It's important to design a pricing structure that motivates your customers to purchase their garments or other soft goods from you rather than bring in their own items. There are several reasons for this:

1. You reduce the risk of having to replace customer-owned goods.
2. You ensure consistency in the quality and characteristics of the items you embroider.
3. You can develop a price list for your core products.
4. You increase your likelihood of getting reorders because you are their garment source.

Embroiderers who sell the garment on most orders make about half of their profit from garments.

For most small- to mid-sized embroidery shops, it's a good policy to charge more for embroidery services on customer-owned items.

Because there isn't much economy of scale in embroidery, quantity discounts should be carefully calculated and based on real savings. After set-up, it takes as long to complete the last run as it took to complete the first. If you develop a price list for specific items that you regularly recommend, you don't necessarily have to reveal to the buyer what part of the price is for the garment and what portion is for the embroidery. More on this "bundled" concept later. You also will eliminate having to stitch a trial garment to test for production worthiness because you are already familiar with the garment.

How Much Does It Cost You to Embroider?

Do you know? Many embroiderers do not. For many years, it has been customary among embroiderers to set prices for embroidery services based on "price per thousand stitches." For example, the price for a logo with 5,000 stitches might be calculated at \$1.50 x 5 (thousand stitches), or \$7.50 per unit. If you use this method, it is important to first establish your cost for producing the embroidery. To get an approximate figure, follow the formula outlined here:

Add up the expenses that it takes to operate your embroidery business. Be sure to include amounts for all regular expenses. Assign a monthly number for each category, and multiply by 12, to get an annual amount.

Then, estimate approximately how many hours you will embroider in a year. For example, if you are embroidering full time, you might multiply 52 weeks by 40 hours for a total of 2,080 hours, or 50 weeks by 40 hours. If you are embroidering part time, adjust accordingly such as 1,000 hours.

Divide the annual expenses by the number of hours, and you get an approximately how much it costs to operate your embroidery business per hour. For more than one embroidery head, divide by the number of heads to get an hourly cost of operation per sewing head.

Each embroidery shop will have its own cost structure. Here's an example.

Sample Shop	Monthly Expense	Annual Expense
Machine/Software	\$300	\$3,600
Rent	\$500	\$6,000
Labor	\$500	\$6,000
Insurance	\$100	\$1,200
Utilities	\$100	\$1,200
Telephone	\$100	\$1,200
Office Supplies	\$50	\$600
Advertising	\$100	\$1,200
Your Salary	\$2,000	\$4,000
Total	\$3,750	\$45,000

Annual expenses in our example shop come to \$45,000. Assuming that the shop will embroider 2,000 hours (40 hours x 50) weeks, it **costs** \$22.50 per hour for embroidery time.

You could divide the operating costs so that the embroidery machine doesn't bear the entire burden for generating revenue. If you do your calculation with the he embroidery machine as the only revenue-generating vehicle it helps ensure that you won't lose money. Other revenue-generating items, such as the profit on garments, just add to the total profit picture.

Calculating Cost per Thousand Stitches

Now we need an estimate of the number of stitches that can be produced in an hour. An average speed of 700 stitches per minute would produce 42,000 stitches if the machine ran every minute of the hour. That's where our efficiency rate comes into the equation. Different types of jobs and equipment sizes have different efficiency rates. An operator running a single-head machine can maintain an efficiency rate of 70 percent, which means that the machine is stitching 70 percent of the time. More embroidery heads and low stitch-count jobs can cause the efficiency to decrease to 50 percent. In the first instance, multiheads operate at slower speeds than singleheads; they also produce more



thread breaks and require more bobbin and hoop changes. In the second instance, hoops must be changed more often. At an efficiency rate of 70 percent, a single-head machine produces 29,400 stitches per hour. Using the hourly cost of **\$22.50 per hour** calculated earlier, this production rate reveals a **cost of 76¢ per thousand stitches**.

Calculating Price per Thousand Stitches

This number can then be used to calculate your selling price for your embroidery services in two different ways. The first way is simply to mark up the price per thousand. If you are embroidering an order with a 5,000-stitch logo, and you mark up your embroidery cost by a *margin* of 50%, your selling price per thousand stitches would be about \$1.50 per 1,000 stitches, or \$7.50 per piece.

Margin

Properly calculating margin is crucial. Many embroiderers mistakenly believe they are making more profit than they actually are because they do the math wrong. Let's take this simple example. If an item that costs \$10.00 is sold for \$15.00, many people think this is a 50% margin, but it is only 33%.

Cost of Goods	Desired Margin	Divide Cost by	Selling Price
\$10.00	30%	.7	\$14.29
\$10.00	40%	.6	\$16.67
\$10.00	50%	.5	\$20.00

Margin (i.e. gross profit margin) is computed by dividing gross profit (sales – cost of goods sold) by total sales (*Source: InvestorDictionary.com*).

Profit Wheel

You can purchase a profit wheel at many office supply stores. You can use it to calculate a selling price at a specific margin. You can download a free profit margin calculator from the Internet that works well also www.softlookup.com/display.asp?id=11

Markup on Garments

You will want to calculate an appropriate margin on garments or other soft goods that you sell and embroider. On small quantities and low-cost items, many embroiderers use a 50% margin, which doubles the cost of the item. However, it is difficult to sustain this margin on orders having higher quantity and/or higher cost goods. So, while a promotional quality golf shirt may be able to carry a 50% margin and be sold at a competitive price, a high-end rayon or silk blend camp shirt may require a lower margin. Here are some examples that demonstrate this pricing principle:

Example 1

- Promotional quality golf shirt: wholesale cost \$8.00 with a 50% margin = \$16.00
- 8,000 stitches stitch allowance - \$10.00
- Selling price is \$26, complete with embroidery, in small quantities.



Example 2

High-end, rayon blend camp shirt: wholesale cost \$20.00 with a 50% margin = \$40.00 plus embroidery would probably put it out of consideration for most customers at \$47.50. In this instance, we may need to take a lower margin to make the sale. A 25% margin plus embroidery gives a selling price of just over \$34.00, a price more likely to get the order.

Pricing by Time Instead of Stitch Count

There are two instances when price per thousand stitches has to go out the window: low stitch-count jobs and orders for single- or low-quantity items. Here are some examples: Regardless of quantity, it may be difficult to price by stitch count for extremely low stitch counts. Efficiency is adversely affected, as hoops must be changed more than normal. In this case, estimate how many units can be produced in an hour. Apply your desired margin to this hourly cost, and divide the number of items into this figure to get a unit price. For example, to a cost of \$22.50 per hour, add a margin of 50% for an hourly rate of \$45. This is your *target revenue*.

Another example is individual monograms. A man's shirt cuff monogram contains only 200 stitches or less, so it would be impractical to price this item by stitch count. Rather, calculate how many you could do in an hour and charge according to your rate per hour, including your determined margin. If you believe you can do nine cuff monograms in an hour, at the hourly rate of \$45, your charge should be at least \$5.00 per monogram.

An effective way to encourage your customers to bring in larger amounts of shirts is to have a sliding quantity discount. For example, one shirt monogram might cost \$10.00, with 2-5 priced at \$7.50 each and so on. Remember: You've already determined that your *lowest* price will be no less than \$5.00.

What about a Price List?

As mentioned at the beginning of this article, it is possible to formulate a simple price list based on *bundled* prices that include a specific stitch count for embroidery on specific items. For example, the list might include several quantity breaks, such as 1, 12, 24, for one promotional grade shirt with up to 8,000 stitches of embroidery.

It also might include similar quantity breaks for a moderate shirt and a premium shirt with the same number of stitches. (The price list specifies the price per thousand for stitches above 8,000.) This allows you to give a quote on the spot, with the caveat that if the logo has more stitches, the price will be slightly higher. Most logos fall in this range, and some have fewer stitches. So, if you have 8,000 stitches built in, and the logo has only 6,000 stitches, you have either a profit bonus or negotiating room. You can always fine-tune the price for each specific request. In any case, your price list will reflect your pricing philosophy and give you and your customers a sense of structure.

You can also include other standard items, such as embroidery on a set of towels, individual names on jackets, minimum price per item and minimum price per order. This is also a good place to note special policies such as your rush charge percentage.